Denver Investments®
Institutional

# MID-CAP VALUE

## FACT SHEET | December 31, 2017

## STRATEGY

- Seek to invest in attractively-valued companies generating positive free cash flow and improving returns
- Use integrated investment approach that combines proprietary quantitative screen and original fundamental research
- Employ bottom-up, team-based stock selection process
- Emphasize strict adherence to our style and risk control measures

## Top Ten Holdings[2,3] (%)

| | |
|---|---|
| **Ingredion Inc** (Capital Goods) | 3.2 |
| **Lamb Weston Holdings Inc** (Consumer) | 2.6 |
| **Public Service Enterprise Group Inc** (Utilities) | 2.5 |
| **Tyson Foods Inc** (Capital Goods) | 2.5 |
| **Voya Financial Inc** (Interest Rate Sensitive) | 2.5 |
| **AmerisourceBergen Corp** (Medical / Healthcare) | 2.4 |
| **Spire Inc** (Utilities) | 2.3 |
| **Grifols SA** (Medical / Healthcare) | 2.1 |
| **Edison International** (Utilities) | 2.1 |
| **Sinclair Broadcast Group Inc** (Consumer) | 2.0 |
| **Total (% of portfolio)** | **24.2%** |

*[1]Data is based on firm's Mid-Cap Value composite. Past performance does not guarantee future results and future performance may be lower or higher than the performance presented. See Performance Disclosure for additional performance information.*

*[2]Information presented is for a representative portfolio which is an account in the composite that we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The information of the representative portfolio shown may differ from that of the composite and of the other accounts in the composite. Information on this page is considered supplemental information to the Performance Disclosure. Weights may not sum to 100% due to rounding.*

*[3]The specific securities identified and described do not represent all the securities purchased, sold or recommended for clients in the composite and no assumption should be made that such securities or future recommendations will be profitable in the future.*

*[4]Source: FactSet*

*[5]Standard Deviation, Beta and Tracking Error statistics based on monthly data. Three years. Source: eVestment Alliance.*

## Performance[1]

| | | | Annualized Returns | | | |
|---|---|---|---|---|---|---|
| **Periods Ended 12/31/17 (%)** | **QTD** | **YTD** | **1 Year** | **3 Years** | **5 Years** | **10 Years** |
| Mid-Cap Value (gross) | 4.54 | 7.40 | 7.40 | 10.03 | 14.97 | 8.16 |
| Mid-Cap Value (net) | 4.34 | 6.60 | 6.60 | 9.22 | 14.12 | 7.40 |
| Russell Midcap® Value Index[4] | 5.50 | 13.34 | 13.34 | 9.00 | 14.68 | 9.10 |

| **Calendar Year (%)** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|---|
| Mid-Cap Value (gross) | 7.40 | 24.40 | -0.28 | 14.08 | 32.17 | 13.75 |
| Mid-Cap Value (net) | 6.60 | 23.48 | -1.03 | 13.24 | 31.21 | 12.97 |
| Russell Midcap® Value Index[4] | 13.34 | 20.00 | -4.78 | 14.75 | 33.46 | 18.51 |

## Portfolio Characteristics[2,5]

| | **Mid-Cap Value** | **Russell Midcap® Value[4]** |
|---|---|---|
| Weighted Average Market Capitalization ($ Mil) | $11,847 | $14,186 |
| Median Market Capitalization ($ Mil) | $9,047 | $7,433 |
| Discount to Intrinsic Value | 23.5% | - |
| Price/Book Value | 2.4x | 2.4x |
| Return on Assets | 5.4% | 4.0% |
| Long-Term Debt/Capital | 43.1% | 39.7% |
| Dividend Yield (1 year trailing) | 2.1% | 2.0% |
| Beta (3 Years) | 0.98 | - |
| Standard Deviation (3 Years) | 10.70% | 10.47% |
| Tracking Error (3 Years) | 3.18% | - |
| Turnover (3 year average) | 58% | - |
| Number of Holdings | 60 | |

## Sector Allocation[2]

| | **Mid-Cap Value** | **Russell Midcap® Value[4]** | **Relative Weights** |
|---|---|---|---|
| Basic Materials | 7.8 | 5.8 | 2.0 |
| Capital Goods | 13.5 | 12.6 | 0.9 |
| Consumer | 13.5 | 14.9 | -1.4 |
| Energy | 7.6 | 8.4 | -0.8 |
| Interest Rate Sensitive | 20.5 | 20.9 | -0.4 |
| Medical / Healthcare | 9.3 | 6.5 | 2.8 |
| REITs | 10.9 | 13.6 | -2.7 |
| Technology | 7.6 | 6.9 | 0.7 |
| Utilities | 8.2 | 10.3 | -2.1 |
| Cash | 1.2 | 0.0 | 1.2 |

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## Manager commentary for the quarter ended December 31, 2017[1,2,3,4]

**Market Overview**
Markets climbed higher in the fourth quarter based on the passage of the tax bill and hopes that lower corporate and individual tax rates would accelerate economic growth. Value stocks underperformed growth stocks and mid-cap stocks underperformed large-cap stocks, as was the case throughout the year, as valuation remained out of favor and the momentum-driven market continued. Investors focused on stocks that had the highest sales growth and best fundamental execution, regardless of valuation levels. In this environment, it was not surprising that dividend-paying and less volatile stocks underperformed.

**Portfolio Commentary**
Our value-oriented, dividend-focused style tends to lag in momentum-driven markets, and this quarter and year were consistent with return pattern. We exacerbated the downside with mistakes in fundamental projections for a handful of stocks and, unfortunately, the penalty for those mistakes was greater than it could have been in a valuation-driven market. The Denver Investments' Mid-Cap Value portfolio's fourth quarter return lagged the 5.50% return of its benchmark, the Russell Midcap® Value Index.

**Contributors to Portfolio**
The sectors that contributed most to the portfolio's return relative to its benchmark in the quarter were consumer, basic materials, and capital goods. From an individual stock perspective, Voya Financial Inc. was the portfolio's top performer. This financial services company was the standout performer within the interest rate sensitive sector as the company announced the sale of its closed book variable annuity business. This action should reduce the company's market and insurance risk. Additionally, it will allow Voya to focus on its higher-growth, higher-margin, and lower capital businesses, which include retirement, investment management, and employee benefits. Tyson Foods Inc., a processor of beef, chicken, pork, and other prepared foods, was a relative outperformer during the fourth quarter. Its stock price was supported by quarterly earnings that beat expectations and demonstrated a continuation of strong results across its 'proteins' business segments. Also supporting its stock price was a favorable outlook for improved operations across its most profitable segments. Ingredion Inc., a nutrition and specialty ingredient manufacturer, was a standout contributor to outperformance in the capital goods sector. Upside financial results were driven by better-than-expected profitability due to substantial improvement in the company's South American operations that resulted from cost cutting measures and network optimization. Other factors driving performance were positive outlooks from analysts and early indicators of favorable price increases within the U.S. corn syrup industry. Further contributing to the portfolio's performance was Lamb Weston Holdings Inc., a producer and marketer of frozen potato products. The company reported solid first quarter sales and earnings driven by increased prices and improved product mix. News of positive contract renewals and early indications of an average potato crop year added to the tailwinds for the stock. Also among the portfolio's top contributors for the quarter was WestLake Chemical Corp., a vertically integrated global manufacturer and marketer of basic chemicals, vinyls, polymers, and building products. The company outperformed in the fourth quarter as the market came to appreciate its ethylene positions and the reduced cyclicality of the company's profit margin profile. Moreover, fears of a North American ethylene oversupply proved to be overblown due to delays in supply additions and Hurricane Harvey's impact on competitor ethylene output. Also, WestLakes's vinyls business continued to see strong pricing momentum as North American competitors suffered maintenance downtime, Chinese production capacity was halted due to increasing environmental actions, and capacity for European production of mercury cells, used in vinyl production, was permanently capped.

**Detractors from Portfolio**
The portfolio's weakest sectors relative to the benchmark for the quarter were the interest rate sensitive, energy, and REITs. From an individual stock perspective, AmTrust Financial Services Inc., an insurer focused on small businesses in lower risk industries, was the portfolio's largest detractor. The stock pulled back on lower-than-expected earnings that resulted from record-high catastrophe losses due to the severe hurricane season. In addition, the stock has been volatile while management repositions the company through a partial sale of the fee business and the strengthening of reserves and capital raises. We believe these actions position the company well to accelerate growth and improve returns in the coming quarters. Edison International, a public utility conglomerate based in California, underperformed in the fourth quarter as damaging wildfires within the territory of its subsidiary, Southern California Edison, pressured the stock. Due to California's unique legal environment, until a ruling on the cause of the fires is made, we expect that the stock will sit in regulatory limbo. We believe this will distract the market from the attractive long-term investment opportunities that we see available to Edison, such as grid upgrades for electric vehicles, residential solar, and a clean energy economy. We remain optimistic based on Edison's long-term opportunities and the current valuation of the stock. Realogy Holdings Corp., a leading owner and franchisor of residential real estate brokerages, as well as corporate relocation and title insurance, was another disappointing performer in the quarter. The company reported lower-than-expected earnings and reduced its guidance for future earnings estimates due to higher costs. The stock also pulled back on market concerns regarding the impact of tax reform on the sale of higher priced homes in high tax states. We see a very favorable outlook for housing and a significantly lower tax rate for Realogy as significant tailwinds to sales and cash flow growth going forward. Energy sector holdings EQT Corp. and Range Resources Corp. underperformed in the quarter alongside gas producers due to concerns that supply will surpass long-term demand in the current low gas environment. We believe demand will be sufficient to offset supply and that both companies are well positioned to benefit in a stable and improving gas price environment.

**Outlook and Positioning**
With the passing of tax reform, markets finally have a reason to believe that economic growth will accelerate. Such growth is necessary to support historically high equity valuation levels and fuel further stock price appreciation. The question remains whether tax reform will drive capital expenditures and consumer spending high enough to offset wage pressure and other inflation drivers. This could allow the Fed to normalize policy rates and accelerate the shrinkage of its balance sheet, thereby putting a damper on the economy's growth rate. An accelerating economy is typically more beneficial to economically-sensitive, domestic-focused, and smaller-cap stocks, and tax reform should positively impact higher tax sectors, such as financials, consumer discretionary, and capital goods. We believe our strategy is well-positioned in this type of environment and we are working hard to improve our stock selection and bounce back, as we have in the past, from a tough year of performance.

## Top 5 Contributors/Detractors (By Stock)[2,6]

| Top 5 Contributors | Average Weight | Absolute Contribution to Return |
|---|---|---|
| Voya Financial, Inc. | 2.12 | 0.48 |
| Tyson Foods, Inc. Class A | 3.02 | 0.47 |
| Ingredion Incorporated | 2.95 | 0.46 |
| Lamb Weston Holdings, Inc. | 2.33 | 0.44 |
| Westlake Chemical Corporation | 1.58 | 0.41 |

| Top 5 Detractors | Average Weight | Absolute Contribution to Return |
|---|---|---|
| AmTrust Financial Services Inc. | 1.93 | -0.59 |
| Edison International | 2.46 | -0.42 |
| Realogy Holdings Corp. | 1.31 | -0.28 |
| EQT Corporation | 1.47 | -0.20 |
| Range Resources Corporation | 1.05 | -0.19 |

*[6]The securities identified on this chart were determined after consistently calculating the weight of each holding in the representative account multiplied by the rate of return for that holding during the period. The securities identified do not represent all of the securities purchased, sold or recommended for advisory clients. You may obtain a complete list showing the contribution of each holding in the representative account to the overall account performance during the period presented by emailing marketing@denvest.com or calling 303.312.5000.*

*The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will vary, and initial investments may be worth more or less than their original investment. To obtain current performance as of the most recent month-end and for important performance disclosures, please see the strategy's composite performance at www.denvest.com.*

*The Manager Commentaries contain certain forward-looking statements about the factors that may affect future performance. These statements are based on portfolio management's predictions and expectations concerning certain future events and their expected impact on the strategy, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the strategy. Portfolio management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.*

## Performance Disclosure: Mid-Cap Value Composite

| Year | — Composite Assets— Dollars ($ millions) | % of Firm Assets | Composite Accounts | Composite Gross of Fees Annual Return (%) | Composite Net of Fees Annual Return (%) | Russell Midcap® Value Index (%) | Composite 3 Year Standard Deviation (%) | Index 3 Year Standard Deviation (%) | Composite Dispersion (%) | Total Firm Assets (Incl. Model Portfolios)* ($Bil) | Total Firm Assets ($Bil) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 80 | 1.1 | 1 | 24.40 | 23.48 | 20.00 | 11.10 | 11.46 | - | 7.476 | 7.169 |
| 2015 | 52 | 0.7 | 1 | -0.28 | -1.03 | -4.78 | 10.14 | 10.86 | - | 7.606 | 7.382 |
| 2014 | 58 | 1.0 | 1 | 14.08 | 13.24 | 14.75 | 9.06 | 9.95 | - | 9.596 | 9.373 |
| 2013 | 53 | 1.0 | 1 | 32.17 | 31.21 | 33.46 | 11.99 | 13.89 | - | 10.009 | 9.794 |
| 2012 | 40 | <1.0 | 1 | 13.75 | 12.97 | 18.51 | 15.01 | 17.00 | - | 9.565 | 9.343 |
| 2011 | 43 | <1.0 | 1 | 1.19 | 0.51 | -1.38 | 19.62 | 23.10 | - | 9.389 | 9.101 |
| 2010 | 46 | 1.0 | 1 | 21.59 | 20.85 | 24.75 | - | - | - | 8.989 | 8.711 |
| 2009 | 49 | 1.0 | 1 | 33.51 | 32.64 | 34.21 | - | - | - | 8.038 | 7.837 |
| 2008 | 41 | 1.0 | 2 | -41.63 | -42.02 | -38.44 | - | - | 0.15 | 7.008 | 6.867 |
| 2007 | 105 | 1.1 | 3 | 2.82 | 1.60 | -1.42 | - | - | 0.79 | 9.715 | 9.502 |
| 2006 | 88 | 1.1 | 1 | 13.59 | 12.25 | 20.22 | - | - | - | 8.396 | 8.368 |

**Number includes a portion of assets where Denver Investments does not have discretionary trading authority. This information is supplemental to fully compliant presentation.*

1) Denver Investment Advisors LLC (dba Denver Investments) is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Denver Investments provides fundamental investment management services to various institutional and private investors and mutual funds.
2) This composite was created in January 1998 (style inception was 1/1/1998). All returns are computed using a time-weighted total rate of return. The composite is defined to include all fee-paying, discretionary accounts managed according to the Mid-Cap Value strategy. The composite includes all actively managed equity accounts that are managed to the Russell Midcap® Value Index and primarily invest in mid-capitalization U.S. value equities. The Russell Midcap® Value Index is an unmanaged index that measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000® Value Index. FTSE Russell is the source and owner of the Russell Index data contained in this material and all trademarks and copyrights related thereto. Any further dissemination or redistribution is strictly prohibited. FTSE Russell is not responsible for the formatting or configuration of this material or for any inaccuracy in Denver Investments' presentation thereof. Index returns are not covered by the report of the independent verifiers.
3) Gross of fee returns are calculated gross of management and custodial fees, and net of transaction costs. Net of fee returns are calculated net of management fees and transaction costs, and gross of custodian fees. As of 1/1/15, net of fee returns were calculated by deducting the maximum applicable advisory fee in effect, pro-rated on a monthly basis. From 1/1/08 to 12/31/14, net of fee returns were calculated by deducting the maximum applicable advisory fee in effect, pro-rated on a quarterly basis. Prior to this date, net of fees returns were calculated using actual annual client fees, pro-rated on a quarterly basis. From 1/1/98 – 9/30/98, net results are from a non-fee paying account, so a model fee, equivalent to the highest fee that could have been charged (0.65%), has been deducted. Thereafter, actual fees have been deducted.
4) The dispersion of annual returns is measured by the standard deviation across unweighted portfolio gross returns represented within the composite for the full year. Dispersion is not shown for years in which only one account is present for the entire year.
5) Valuations and returns are computed and stated in U.S. dollars. Performance is calculated net of withholding taxes on foreign dividends and interest. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Total returns for accounts are presented using the accrual basis of accounting for all fixed income and equity investments and on a cash basis for all cash equivalents.
6) Denver Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Denver Investments has been independently verified for the periods 1/1/84 – 12/31/16. Verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Mid-Cap Value composite has been examined for the periods 12/31/03 – 12/31/16. The verification and performance examination reports are available upon request. A complete list and description of all firm composites is available upon request.
7) The maximum fee rate is 0.75%. Please reference Denver Investments' ADV for full fee schedule.
8) Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
9) Past performance does not guarantee future results and future performance may be lower or higher than the performance presented.

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